



REPLY COMMENTS OF ADVO, INC. TO
THE PRESIDENT'S COMMISSION ON THE U.S. POSTAL SERVICE

A number of the comments submitted to the President's Commission have identified real problems facing the Postal Service and have offered a variety of solutions. The solutions differ, as would be expected, but for the most part they are made in the spirit of improving the Postal Service so that it can continue to serve the hard-copy communication and commerce needs of America in the 21st Century.

The comments filed by the Newspaper Association of America (NAA), however, are an exception, to which ADVO, Inc. is compelled to reply. NAA claims that Postal Service management has strayed from its public service mission, and blames the Postal Service for underpricing competitive products with which NAA's member newspapers compete. Its comments, particularly its views of the market and competition and its allegation that advertising mail rates are "inappropriately low," simply restate arguments it has made unsuccessfully to the Postal Rate Commission in rate case after rate case.

Competition and the Marketplace.

NAA is a trade association that predominantly represents daily newspapers, including virtually every large daily newspaper and newspaper chain in the nation. Although it claims a broad interest in postal rates, NAA's has narrowly targeted only one particular category of mail – saturation mail within the Enhanced Carrier Route subclass of Standard mail.¹ This is because saturation mail offers a competitive alternative to newspaper

¹ Most daily newspapers do not use the mail to deliver papers to their subscribers, instead using their own delivery networks. Ironically, for many NAA members, their primary use of the mail is for advertising distribution to nonsubscribers through "total market coverage" (TMC) products mailed at the ECR high-density postal rate, and even saturation advertising products mailed at the ECR saturation rate.

distribution for retail print advertisers that need to reach potential customers near their stores and businesses.

Although, NAA alleges that a monopolistic Postal Service unfairly competes with newspapers for distribution of retail print advertising, the truth is that in virtually every city in the country, the dominant distributor of retail print advertising is the local daily newspaper. In most cities, but for the competitive alternative offered by mail, the daily newspaper would have an effective monopoly on retail print distribution.

Private carrier (newspaper) delivery is in fact a much lower cost option for delivering advertising than is the Postal Service. To characterize the Postal Service as underpricing saturation mail is simply an attempt to further solidify the already major cost advantage enjoyed by NAA's members and retain its lucrative monopoly.

The Postal Service's Mission.

NAA claims that the Postal Service should be confined to offering service only where there is a "market failure" that justifies "governmental intervention" (p. 6). Because newspapers distribute print advertising, NAA implies that there is no "marketplace" and that the Postal Service's role should be curtailed, shifting the business to newspaper companies in the private sector.

NAA does not advocate directly barring retail print advertising from the mail; instead it advocates an approach of pricing such advertising mail out of the market. The end result would be the same: a monopoly on retail print advertising for newspapers, at the expense of American consumers and mail users who would have to pay higher prices for goods and services and higher postal rates.

The Postal Service's mission, however, is not constrained to delivering only products for which there is no competitive alternative. From the very beginning in the early

18th Century, the mission of the Post Office, and now the Postal Service, has been to serve America's hard-copy communications and commerce needs. Advertising has been an important segment of the postal mail stream throughout the history of the Postal Service, because mail advertising is vital to hundreds of thousands of American businesses, and to the American economy. The distribution of advertising matter is not some new, sideline venture on the periphery of the Postal Service's business. It has been and is an integral part of the Postal Service's core mail delivery service.²

The NAA cites its long historical association with the Postal Office and points proudly to Benjamin Franklin as the personification of that relationship. But in so doing, they are far too enamored of the imagery to notice the reality. The reason so many of our early postmasters were also newspaper publishers was because it was a very lucrative career combination. As a firm believer in profits, ADVO does not criticize this practice.

Postmasters were free to set the rates to be charged for delivering newspapers, theirs and those of their competitors, an advantage that was not lost on the wily Ben Franklin. He tells us in his autobiography that he "found it a great advantage; for tho' the salary was small, it facilitated the correspondence that improved my newspaper, increased the number demanded, as well the advertisements inserted, so that it came to afford me a comfortable income. My old competitor's newspaper declined proportionately."

² This debunks NAA's false analogy between advertising mail and other services such as e-commerce, which NAA contends are "like the advertising market" because they allegedly "share the same characteristic that there is no market failure that justifies governmental intervention." NAA Comments at 6.

Today, the market *is* adequately served *only because* there is a competitive mail alternative. As both the Postal Rate Commission and the courts have held, competition between mail advertising and non-postal alternatives is beneficial and should be fostered.³

Rates For Competitive Saturation Mail Are Too High.

ADVO recognizes that it is not within the President's Commission's purview to become enmeshed in issues about the appropriate level of particular postal rates. NAA, however, attempts to do so with its allegation that saturation mail rates are "inappropriately low" – a mischaracterization that implies rates that barely cover costs. To the contrary, saturation mail rates are quite high, whether measured in relation to postal costs or the marketplace.

The current rates for the ECR subclass, recommended by the Commission in the R2001-1 rate case, have a cost coverage of 208%. This amounts to a pricing markup of 108% above attributable costs – the *highest* markup of any mail subclass. For saturation mail, the lowest-cost and most competitive component of the ECR subclass, the effective markup is substantially higher.

NAA's related contention, that the Postal Service has "deliberately underpriced" competitive mail in order to maximize volume at the expense of profitability (p. 12), is false. As any businessman knows, in a profit-maximizing firm, competitive products cannot be priced the same as noncompetitive products. They must be priced in line

³ As the 2nd Circuit Court of Appeals held in rejecting competitors' challenges to the PRC's recommended rates for this kind of competitive advertising mail, "In evaluating competition-related arguments under subsection (b)(4), it must be remembered that the PRC's task is to protect *competition*, not particular competitors." *Direct Marketing Ass'n. v. USPS*, 778 F2d 96, 106 (2nd Cir. 1985) (emphasis in original).

with the marketplace, or they will not exist -- and will not provide any contribution to fixed costs.

Adoption of NAA's approach to Postal ratemaking would have these consequences:

- Saturation mailers would either be driven out of business or be forced to develop their own private delivery networks.
- Advertisers, with fewer or no alternatives to newspapers for distribution of their retail print advertising, would face higher monopoly-driven advertising rates, as was the case prior to the introduction of shared mail in the early 1980s.
- American consumers would pay higher prices on products and services to cover those higher monopoly-rent advertising costs and the majority of Americans consumers, especially the middle and lower income who do not subscribe to a newspaper, would have less product, service and price information and thus fewer choices.
- Other postal mail users, both individuals and businesses, would have to pay higher postal rates to make up for the lost contribution to institutional costs from competitive mail products.
- The Postal Service, already under competitive pressure, would be further weakened in its ability to meet the hard-copy distribution needs of the nation.

Given the many real and serious challenges the Postal Service faces, particularly increased competition for postal volumes, true reform of the postal system to ensure its continued relevance and viability in the 21st Century should give the Postal Service greater flexibility over its products, its prices, and its costs and workforce.

Please direct inquiries regarding this reply to:

Vincent Giuliano, SVP for Government Relations
ADVO, Inc.
One Univac Lane
Windsor, CT 06095

860-285-6126